

W. Scott Randolph
Director – Regulatory Affairs



November 14, 2002

Verizon Communications
1300 I Street
Suite 500E
Washington, DC 20005

Phone: 202 515-2530
Fax: 202 336-7922
Srandolph@verizon.com

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers – CC Docket No. 01-338; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 - CC Docket No. 96-98; Deployment of Wireline Services Offering Advanced Telecommunications Capability – CC Docket No. 98-147

Dear Ms. Dortch:

On November 13, 2002, William P. Barr, Thomas Tauke, Susanne Guyer and Michael Glover, of Verizon, met with Chairman Michael Powell and his legal assistant, Christopher Libertelli. They discussed how reform of the Commission's UNE and broadband policies are critically important to reinvigorate investment in the telecom industry and how the current unbundling rules are destructive of investment and the long-term competitiveness of the entire industry. They also reviewed Verizon's proposed reforms as they relate to the enterprise and broadband markets, special access, and the general business and consumer markets.

Please associate this notification with the record in the proceedings indicated above. If you have any questions regarding this matter, please call me at (202) 515-2530.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Scott Randolph".

W. Scott Randolph

cc: Chairman Michael Powell
Christopher Libertelli



Roadmap to a Competitive Future

Broadband and UNE Policies



November 2002

FCC has opportunity to help

- ✓ Reform of UNE and broadband policies are critically important to reinvigorate investment in the telecom industry
- ✓ Unbundling rules are destructive of investment and the long-term competitiveness of the entire industry

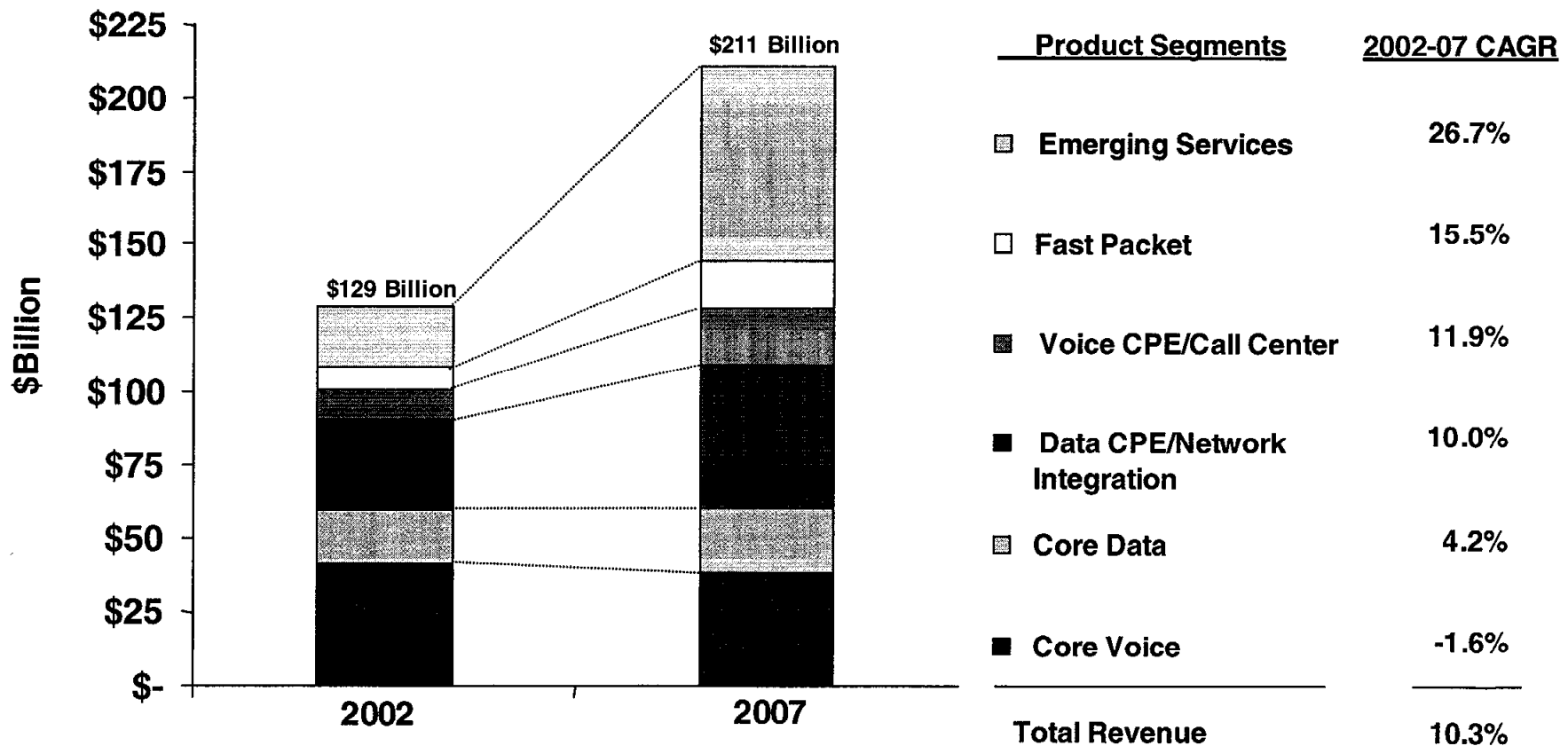
What's the end game?

FCC should focus on areas critical for recovery of the telecom sector:

- ✓ New markets
 - Enterprise market
 - Broadband
- ✓ Special access for long distance
- ✓ General business market
- ✓ Consumer market

Enterprise market

✓ Analysts project robust growth for this market

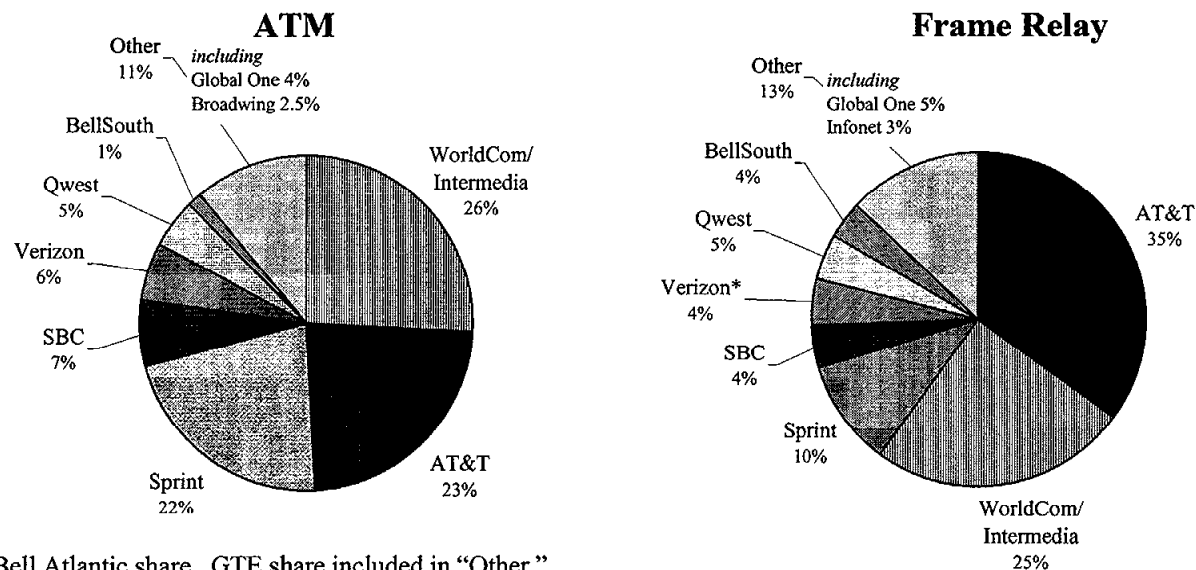


Source: Yankee, Gartner, IDC, Forrester, JP Morgan, and Telecom Industry Association (TIA)
 Note: Based on 1Q02 economic data

Enterprise market

- ✓ Growth engine for technology innovation
- ✓ AT&T and WorldCom dominate market

Figure 5. Market Share of Nationwide ATM and Frame Relay Revenues



Source: R. Kaplan, IDC, *U.S. Packet/Cell-Based Services Market Forecast and Analysis, 2000-2005* at Figures 9 & 31 (2001).

Enterprise market

- ✓ CLECs are competing today without reliance on ILECs' UNE high-capacity loops
- ✓ Analysts estimate total enterprise market of \$129 billion; annual growth rate of 10%
- ✓ BOCs have a small share of this market

Action needed: Eliminate unbundling obligations

Special access for long distance

- ✓ Special access for long distance is highly competitive
- ✓ Competitive carriers are successfully using special access as an input to the competing services they offer
- ✓ Because competitive carriers cannot use UNEs to substitute for special access for long distance, their market success demonstrates they are not being impaired

Action needed: Maintain current restrictions on substituting UNEs for special access

General business market

- ✓ For high-capacity loops with “substantially local” traffic, there clearly is no impairment in areas with pricing flexibility
 - FCC test for pricing flexibility requires actual competitive entry (fiber-based collocation)
 - Areas where competitors have entered are clearly contestable

Action needed:

- Eliminate unbundling obligations for high-capacity loops and transport in areas where FCC has granted pricing flexibility
- Use additional market tests in other areas to determine impairment

General business market

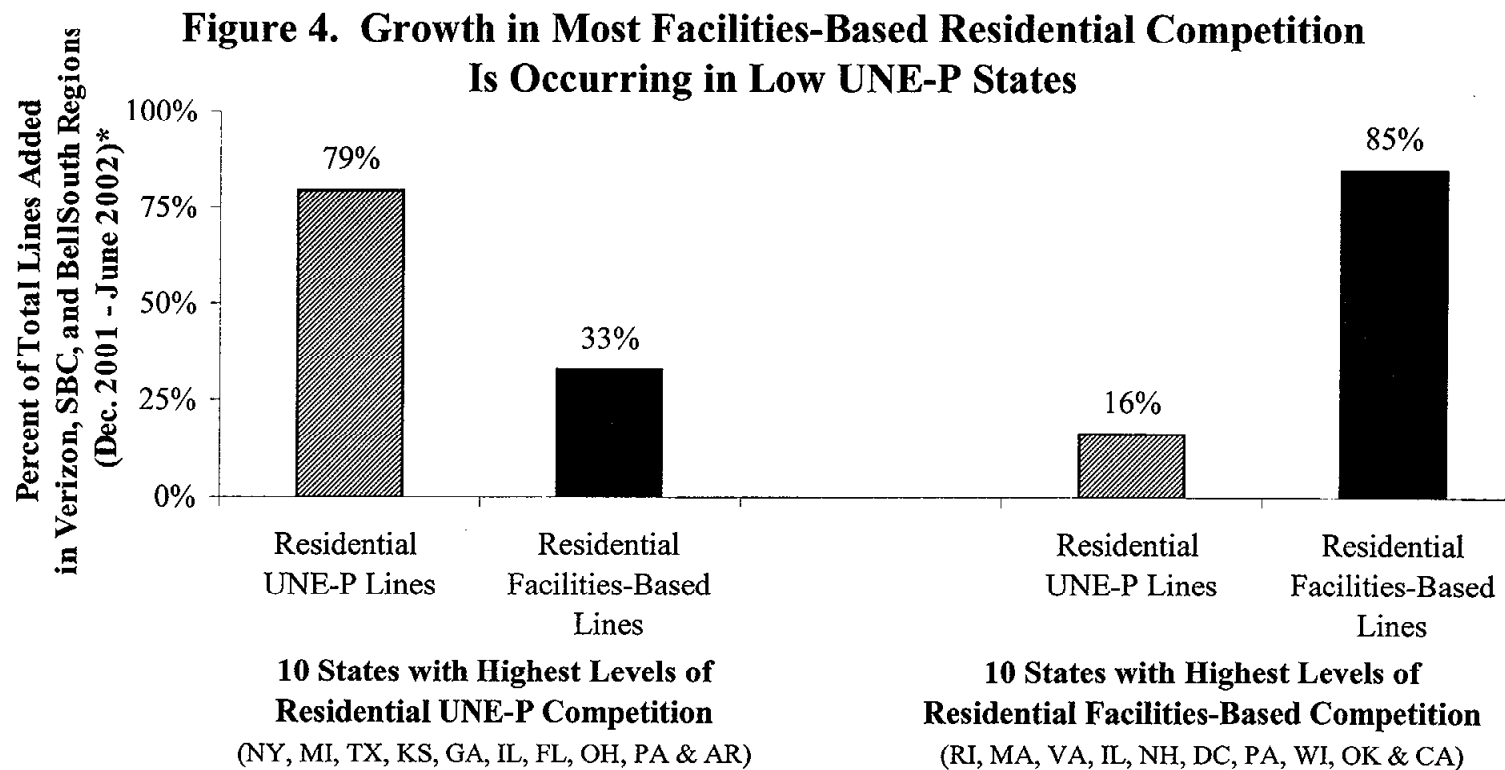
- ✓ CLECs have deployed 1,300 switches, serving wire centers that contain
 - 86% of BOCs' access lines nationwide
 - 96% of BOCs' access lines in top 100 MSAs
- ✓ CLECs using UNE-P to serve business customers have an alternative in higher margin resale service

Action needed:

- Remove circuit switching from UNE list

Consumer market

✓ UNE-P impedes facilities investment



*Totals do not add to 100 percent due to inclusion of two states – Illinois and Pennsylvania – in both categories. Excludes Connecticut and the former GTE service area.

Consumer market

- ✓ Local switching is a national market
- ✓ Local switching is highly competitive
(as shown on General Business – slide 9)
- ✓ CLECs are beginning to migrate customers off of their own networks and serving them using ILECs' facilities

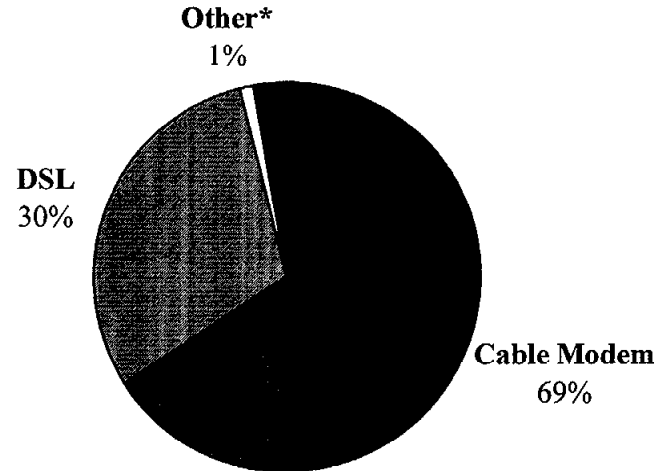
Action needed:

- Remove circuit switching from UNE list
- Price transition UNE-P to resale
- Eliminate pick-and-choose

Consumer broadband

- ✓ Residential broadband market is highly competitive; dominated by cable

**Figure 6. Market Share of Residential Broadband Subscribers
YE 2001**



*Satellite and fixed wireless.

Sources: Salomon Smith Barney, Morgan Stanley, Dean Witter, and TeleChoice. See Appendix M.

Action needed:
Eliminate
unbundling
obligations for
broadband

Sunset for UNEs

- ✓ Establish sunset period for all remaining unbundling obligations
- ✓ Create incentives to all providers to invest in their own facilities and to engage in business-to-business negotiations